

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
March 2006

Summary

General Fund revenue collections were \$430.1 million in February, which was 8.0% above the same month last year. February collections are \$17.9 million higher than the revised January JLBC Baseline FY 2006 forecast for the month and are \$52.8 million over the original enacted FY 2006 forecast. For the fiscal year-to-date, revenues are \$108.9 million above the January forecast and \$540.3 million higher than the original enacted forecast.

The FY 2006 General Appropriation Act requires any revenues above the enacted forecast to be deposited into the Budget Stabilization Fund (BSF). Permanent law caps BSF balances at 7% of General Fund revenue, which equates to \$440 million. When accounting for the 7% cap, \$440 million of the \$540.3 million in excess revenues would be deposited into the BSF. The remaining \$100 million, plus any future FY 2006 excess revenues, will be retained in the General Fund in that circumstance. Of the \$440 million, \$333 million has already been deposited into the BSF, and the remainder will be deposited after the end of the fiscal year.

After adjusting for the loss of one-time FY 2005 Vehicle License Tax (VLT) revenues, February's growth over the prior year is 13.7%. This level is somewhat below the 15-20% growth rates of the past several months. Of the 2 largest revenue categories, the February sales tax growth of 16.8% was comparable to prior month collections in FY 2006. February's 9.8% individual income tax growth, however, was substantially below the recent growth rates in that category of 20%. The lower growth in individual income tax collections was largely caused by a 16.5% increase in taxpayer refunds.

In other fiscal news this month, the Finance Advisory Committee (FAC) met on March 1st (*see page 5*). The FAC is a panel of 16 leading economists that advises the Legislature 3 times a year on the state's economy. The FAC continued to have an optimistic view of the economy. Based on the FAC's input and 3 other models, the 3 largest revenue categories are forecasted to grow 14.8% in FY 2006 and 7.2% in FY 2007.

The March Monthly Fiscal Highlights also includes a summary of recent statutory reports submitted to JLBC (*see page 7*), including preliminary actuarial updates for Title XIX programs in AHCCCS and the Department of Health Services (DHS). According to the report, AHCCCS capitation rates are expected to grow between 6% – 7.5% in FY 2007 (the JLBC Baseline budget assumed 6%). DHS only projected broad ranges for their various capitation rates, which has made it difficult to determine if the FY 2007 budget contains sufficient funding.

The JLBC met on February 28th and March 28th. A summary of the meetings can be found on pages 5 - 6.

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State of Arizona

General Fund Revenue: Change from Previous Year and January Forecast

February 2006

	Current Month					FY 2006 YTD (Eight Months)				
	Actual February 2006	Change From				Actual February 2006	Change from			
		February 2005		Revised Forecast			February 2005		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$330,582,460	\$47,652,284	16.8 %	\$12,303,464	3.9 %	\$2,796,923,977	\$409,594,364	17.2 %	\$29,398,182	1.1 %
Income - Individual	104,975,664	9,335,871	9.8	9,787,577	10.3	2,234,501,450	416,144,949	22.9	73,172,444	3.4
- Corporate	2,408,160	(4,116,028)	(63.1)	(3,864,061)	(61.6)	435,183,185	63,708,514	17.2	3,658,092	0.8
Property	360,166	115,610	47.3	160,166	80.1	14,750,369	54,901	0.4	565,342	4.0
Luxury	5,937,664	1,772,155	42.5	264,664	4.7	43,797,350	2,517,680	6.1	645,425	1.5
Insurance Premium	1,355,119	(1,022,116)	(43.0)	1,355,119	--	138,703,874	9,318,040	7.2	1,468,815	1.1
Estate	136,394	(2,287,501)	(94.4)	(638,606)	(82.4)	11,027,067	(13,784,315)	(55.6)	(899,516)	(7.5)
Other Taxes	43,176	(20,047)	(31.7)	(23,824)	(35.6)	440,956	(1,300,589)	(74.7)	(12,747)	(2.8)
Sub-Total Taxes	\$445,798,803	\$51,430,228	13.0 %	\$19,344,499	4.5 %	\$5,675,328,228	\$886,253,544	18.5 %	\$107,996,037	1.9 %
<u>Other Revenue</u>										
Lottery	3,508,500	1,501,500	74.8	(491,500)	(12.3)	27,909,500	7,443,500	36.4	(3,233,300)	(10.4)
License, Fees and Permits	2,335,979	506,004	27.7	398,879	20.6	20,700,038	3,614,435	21.2	659,091	3.3
Interest	7,516,784	4,833,933	180.2	2,802,984	59.5	35,553,972	21,343,512	150.2	4,315,942	13.8
Sales and Services	3,641,053	919,828	33.8	635,653	21.2	35,422,643	8,191,234	30.1	1,144,240	3.3
Other Miscellaneous	1,925,409	(39,959)	(2.0)	(386,291)	(16.7)	15,857,646	2,657,778	20.1	(777,251)	(4.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	787,573	(3,174,607)	(80.1)	(4,372,427)	(84.7)	17,493,665	(12,352,348)	(41.4)	(1,172,442)	(6.3)
Sub-Total Other Revenue	19,715,298	4,546,699	30.0 %	(1,412,702)	(6.7) %	152,937,464	30,898,111	25.3 %	936,280	0.6 %
TOTAL BASE REVENUE	\$465,514,101	\$55,976,927	13.7 %	\$17,931,797	4.0 %	\$5,828,265,692	\$917,151,655	18.7 %	\$108,932,317	1.9 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(283,485,951)	(34,770,899)	14.0	0	0.0
VLT Transfer	0	(19,809,951)	(100.0)	0	--	0	(86,499,027)	(100.0)	0	--
Judicial Enhancement	0	0	--	0	--	0	(2,120,489)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(24,156,313)	214.2 %	0	0.0 %	(283,485,951)	(123,390,415)	77.1 %	0	0.0 %
TOTAL REVENUE	\$430,078,357	\$31,820,614	8.0 %	\$17,931,797	4.4 %	\$5,544,779,741	\$793,761,240	16.7 %	\$108,932,317	2.0 %

FEBRUARY REVENUES

Sales Tax revenue increased by 16.8% on a year-over-year basis in February and was \$12.3 million above the revised forecast for the month. The following table displays the February and year-to-date growth rates for the major categories:

Table 2**Sales Tax Growth Rates**

	<u>February</u>	<u>Year-to-Date</u>
Retail	14.0%	15.4%
Contracting	33.5%	27.3%
Utilities	8.4%	11.8%
Use	20.2%	21.8%
Restaurant & Bar	13.9%	13.3%

Of particular note was the 20.2% growth in February use tax collections. The high rate of growth was likely driven by large increases in energy prices. According to the most recent data from December, the price of natural gas in Arizona rose 49.4% above last year.

Individual Income Tax collections were \$105.0 million in February, a 9.8% increase above last February and \$9.8 million above the revised forecast for the month. While withholding collections grew by 12.3% over February 2005, this gain was largely offset by a 16.5% increase in refunds. Compared to last year, the rate at which the Arizona Department of Revenue has processed income tax returns is about the same.

Corporate Income Tax collections were \$2.4 million in February, a (63.1)% decrease from a year ago. February, however, is a small month for corporate collections. For the fiscal year to date, corporate income tax revenues have increased 17.2% from last year.

The General Fund portion of February **Luxury Tax** collections was \$5.9 million, or 42.5% above February 2005. The February increase was driven by a large gain in revenues generated from the tax on spirituous liquors.

RECENT ECONOMIC INDICATORS

Revised statistics indicated that **U.S. Gross Domestic Product (GDP)** expanded at a 1.6% annual rate in 2005's fourth quarter, up from the previous 1.1% estimate. GDP growth, which averaged 4.1% in the prior quarter, reflected slower growth in personal consumption expenditures, residential fixed investment, and federal government spending.

The **U.S. Index of Leading Economic Indicators** dipped (0.2)% in February, following 4 consecutive monthly increases. Building permits, consumer expectations, unemployment insurance claims, and vendor performance were among the components contributing to the decline.

The Conference Board's **U.S. Consumer Confidence Index** dropped (4.8)% in February. A cautious outlook for business conditions in the next 6 months pushed the index lower and consumers' current assessment of the job market also declined.

The semiconductor industry continued to show strength. The 3-month moving average of **U.S. semiconductor billings** climbed 0.2% higher in January and stood 6.1% above its level from a year ago. Lean inventories and high capacity utilization rates signaled additional growth in the months ahead.

The **U.S. Consumer Price Index (CPI)** continued to be strongly influenced by energy market fluctuations. Growth in the CPI's 3-month moving average moderated to 0.2% in February, aided by a (1.2)% drop in fuel costs. Excluding food and energy prices, the core CPI increased 2.1% during the last 12 months.

Arizona's job market started off 2006 on a solid note. Statewide **non-farm employment** totaled 2.59 million in February, a 5.4% gain from a year ago. The manufacturing industry, which was shrinking in recent years, added 4,200 jobs in the last 12 months. The remaining goods-producing sectors – construction and mining – continued to post strong results. Meanwhile, February's **unemployment rate** dropped to 4.4%.

Table 3

General Fund Revenues
Compared to Enacted and Revised Forecasts and FY 2005 Collections
(\$ in Millions)

	<u>FY 2006 Collections</u>	<u>Difference From May 2005 Forecast</u> ^{1/}	<u>Difference From Jan 2006 Forecast</u> ^{2/}	<u>Difference From FY 2005</u>
February	\$ 430.1	\$ 52.8	\$ 17.9	\$ 31.8
Year-to Date	\$ 5,544.8	\$ 540.3	\$ 108.9	\$ 793.8

^{1/} Originally enacted FY 2006 budget (May 2005)

^{2/} JLBC January Baseline Budget

Preliminary estimates indicated that Arizona employment increased by 4.1% in 2005. After undergoing the annual benchmark revision process, the state's job count increased at a 5.3% annual rate last year.

The **Arizona Business Conditions Index** decreased (1.4)% to 61.7 in February but still stood higher than the reading of 50 associated with a growing economy. The index has remained in a relatively stable range, the low-to-mid 60s, since September 2003.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** reached a record \$265,000 in February, breaking the previous record of \$263,000 set in September 2005. The **townhouse-condominium median price** climbed to \$175,000 in February, a \$50,000 gain from a year ago. However, the number of homes sold declined sharply, with single-family sales and townhouse-condominium sales down (31.3)% and (17.1)%, respectively, from February 2005.

The **Department of Corrections' inmate population** increased by an average of 127 inmates per month from December through February. The total population increased by 1,089 inmates from a year ago.

The **number of TANF recipients** decreased (5.7)% to 92,022 in January and was (11.5)% below the level from January 2005. The **AHCCCS caseload** decreased (0.5)% in February from the prior month and was (0.5)% below the level from a year ago.

Previous reports on AHCCCS caseloads only included enrolled members in the Traditional Medicaid and Proposition 204 populations, which totaled about 800,000. In order to more accurately report the total enrollment in the AHCCCS program, beginning in March 2006, the caseloads will now include enrollment numbers for all AHCCCS programs, including Long-Term Care, KidsCare, and Fee-for-Service programs. This broader enrollment is currently 1,039,505. The prior period and prior year comparisons in *Table 4* have been adjusted for comparability with the new enrollment methodology.

Table 4**RECENT ECONOMIC INDICATORS**

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	February	4.4%	(0.4)%	(0.1)%
- Jobs	February	2.59 million	1.4%	5.4%
- Contracting Tax Receipts (3-month average)	Dec-Feb	\$74.0 million	7.0%	31.8%
- Retail Sales Tax Receipts (3-month average)	Dec-Feb	\$173.2 million	13.7%	14.1%
- Residential Building Permits - (3-month moving average)				
Single-unit	Nov-Jan	5,573	(3.1)%	1.9%
Multi-unit	Nov-Jan	861	(8.1)%	12.6%
- Greater Phoenix Existing Home Sales				
Single-Family	February	5,455	3.7%	(31.3)%
Townhouse/Condominium	February	1,260	2.9%	(17.1)%
- Greater Phoenix Median Home Sales Price				
Single-Family	February	\$265,000	3.1%	32.5%
Townhouse/Condominium	February	\$175,000	6.1%	40.0%
- Arizona Tourism Barometer	December	108.1	3.2%	9.4%
- Phoenix Sky Harbor Air Passengers	January	3.15 million	(3.6)%	4.9%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	December	\$9.22	3.8%	49.4%
- Leading Indicators Index	December	122.2	0.5%	1.4%
- Business Conditions Index (>50 signifies expansion)	February	61.7	(1.4)%	(6.7)%
- Consumer Confidence Index	1 st Quarter 2006	114.6	14.6%	9.9%
- Business Leaders Confidence Index	1 st Quarter 2006	59.9	9.5%	(3.9)%
- Arizona Personal Income	3 rd Quarter 2005	\$179.6 billion	1.7%	8.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	March	1,039,505	(0.5)%	(0.5)%
- TANF Recipients	January	92,022	(5.7)%	(11.5)%
- DOC Inmate Growth (3-month average)	Dec-Feb	33,561	127 inmates	1,089 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2005	\$11.2 trillion	1.6%	3.2%
- Consumer Confidence Index	February	101.7	(4.8)%	(2.6)%
- Leading Indicators Index	February	139.0	(0.2)%	1.4%
- U.S. Semiconductor Billings (3-month moving average)	Nov-Jan	\$3.72 billion	0.2%	6.1%
- Consumer Price Index (3-month moving average)	Dec-Feb	197.9	0.2%	3.7%

FINANCE ADVISORY COMMITTEE MEETING

At its March 1st meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenue collections, the U.S. economy, and Arizona's economy. The FAC is a 16-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The Committee generally had a positive view of the economy. A strong national economy, the housing boom, and capital gains have all contributed to the rapid increase in state revenues. Arizona's real estate market has begun to slow, but momentum will continue to propel the market. Several Committee members cautioned that a considerable portion of the current growth, however, is being generated from one-time real estate and other capital gains. Once the economy begins to slow, these gains will quickly disappear.

The FAC panel members were also asked to provide their FY 2006 – FY 2009 forecasts for the 3 largest revenue categories: sales, individual income and corporate income taxes. The FAC is one of the 4 inputs into the JLBC Staff's 4-sector consensus forecast. The other 3 inputs are:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model; and
- JLBC Staff projections.

Based on the 4-sector consensus, the "Big 3" revenues are forecasted to grow 14.8% in FY 2006 and 7.2% in FY 2007 (see Table 5). Several members of the Committee expressed the opinion that actual growth will be higher than the forecasted rates. FAC members forecasted 15.7% growth in FY 2006 and 8.5% in FY 2007.

JLBC MEETINGS

The Joint Legislative Budget Committee met on February 28th and March 28th. At the February 28th meeting, the Committee considered the following issues:

Department of Corrections – Consider Approval of Requested Transfer of Appropriations – The Committee approved the Department of Corrections' request of a General Fund transfer of \$9 million from Personal Services and \$3 million from Employee Related Expenditures to the Overtime/Compensatory Time Special Line Item (SLI). The Committee also favorably reviewed the General Fund transfer

of \$18.4 million from the Private Prison Per Diem SLI to All Other Operating Expenditures to fund 2,064 provisional beds.

Department of Administration – Review of Initial Telecommunications Contractor and Carrier Cost Rate Structure

– The Committee deferred action on initial contractor and carrier cost rate structures of the Statewide Telecommunications Management Contract until the Legislature finalizes its budget decisions. ADOA had sought Committee review of its rate structure, which would increase the state's overall telecommunications budget in FY 2007 by \$16.8 million (\$10 million General Fund).

Department of Economic Security – Review of Options for Case Management Privatization in Child Protective Services

– The Committee gave a favorable review of DES' report on options for the privatization of portions of the case management duties in Child Protective Services (CPS), with the following provisions:

- DES establish a Public/Private Partnership Workgroup as recommended by the report to continue to explore options for privatization, including the identification of parameters for a pilot program, and report by the end of each calendar quarter to the Committee on the actions and discussions of the workgroup, beginning June 30, 2006.
- DES report back to the Committee on how it is addressing the issues identified in the report regarding current internal procurement and contract monitoring by June 30, 2006.
- DES identify the potential legal, financial and risk impacts of privatization, as recommended in the report, and report these to the Committee by June 30, 2006.

At its September 28, 2005 meeting, the Committee requested that DES and the Attorney General resolve a difference in the reporting of out-of-home placements and report their joint findings to the Committee by December 31, 2005. Since the Committee had yet to receive a response by the February 28 meeting, the Committee also requested that the department provide an update. DES has since responded that the 2 offices are continuing to work on the issue and will report back to the Committee on their findings by May 2006.

Attorney General – Review of Monies in Antitrust Enforcement Fund and the Allocation of Settlement Monies

– The JLBC gave a favorable review of the intended use of \$375,000 in Antitrust Enforcement Revolving Fund monies.

A footnote in the General Appropriation Act requires JLBC review of monies expended from the fund in excess of

Table 5

4-Sector "Big 3" Consensus Forecast: FY 2006 – FY 2009

	FY 2006	FY 2007	FY 2008	FY 2009
Sales Tax	13.9%	5.9%	4.7%	5.0%
Individual Income Tax	15.7%	8.2%	6.1%	6.6%
Corporate Income Tax	15.6%	9.8%	(0.1)%	(2.0)%
Overall Weighted Growth	14.8%	7.2%	4.8%	5.0%

\$208,200. These monies are from a settlement agreement in the El Paso Natural Gas, Busprione and Cardizem antitrust litigation.

The Committee also gave a favorable review to the agency's allocation plan of \$170,000 from the Auto Connection settlement agreement. The settlement is a result of the AG's investigation into complaints by customers who paid for automobile service agreements but were denied services because Auto Zone had failed to forward these agreements to administering companies. Of the \$170,000 settlement, \$120,000 will provide restitution to eligible consumers, with \$50,000 deposited to the Consumer Fraud Revolving Fund to pay for attorney fees.

Department of Public Safety – Quarterly Review of Arizona Public Safety Communications Advisory Commission – The Committee received the Department of Public Safety's (DPS) quarterly report detailing FY 2006 second quarter expenditures and progress for the statewide interoperability design project. During the first quarter, the agency expended approximately \$109,900, with the majority spent on personal services costs and other operating expenditures. To date, the PSCC has filled 6 of 9 positions (2 telecommunication engineer positions and the technical writer position remain unfilled).

The report included information on the Arizona Emergency Radio System (AERS) and federal funds received for interoperability enhancements. With respect to federal funding, the Phoenix metropolitan area was one of 25 metropolitan areas to receive monies to expedite interoperable communication systems already underway. The United States Department of Justice, under the direction of Maricopa County public safety agencies, provided equipment (valued at \$565,000) including:

- Portable radios for large scale incidents which will be stored at 3 locations across the valley.
- Desktop radio control stations for public safety answering points.
- Replacement base stations and electronic equipment for 4 communications sites serving Maricopa County.

During the Committee's last review of this item, it requested information on the Department of Emergency and Military Affairs (DEMA) "short-term" interoperability solution, a program in which the PSCC is providing technical oversight and direction. As a result, the PSCC and DEMA have engineered a pilot project using AERS and anticipate deployment in Coconino County in late 2005.

Arizona Department of Transportation – Review of Third Party Report – The JLBC gave an unfavorable review to the Department of Transportation's quarterly progress report regarding increasing third party quality assurance staffing, workload, backlog and the moratorium on accepting new third parties because the results of the report were unsatisfactory. The waiting list of third party title and registration vendors increased from 40 in FY 2005 to 106 in FY 2006.

Arizona Board of Regents – Review of Progress Report on Phoenix Medical School Campus and Report on Strategies to Prevent State Doctor Shortage – The JLBC gave a favorable review of the Board of Regent's progress report on the Phoenix Medical Campus, with the provision that this review does not constitute endorsement of any level of General Fund appropriations for the Phoenix Medical Campus. The Committee previously included this provision with its original favorable review of the PMC plans. The report indicated the following:

- Through November 30, ABOR, UA, and ASU expended or encumbered a total of \$3.7 million for PMC and related projects.
- As of November 30, 2005, UA had hired 7 faculty or staff, while ASU had hired 13.
- The renovation of Phoenix Union High School is proceeding on schedule for completion in summer 2006.

The Committee also received information from ABOR on strategies to prevent doctor shortages in the state.

Arizona Department of Education – Review of Full Day Kindergarten Research – The JLBC reviewed a report from the Department of Education on existing research on Full Day Kindergarten instruction, but made no designation as to a favorable or unfavorable review. Statute requires the JLBC to review the report prior to legislative consideration of additional funding for full day kindergarten. The report reviewed 13 academic studies on the effects of full day kindergarten. According to the report, ADE found that there are an insufficient number of well-designed research studies documenting the duration of full day kindergarten benefits beyond the 2nd grade and that further studies exploring the long term benefits of full day kindergarten are needed.

At its March 28th meeting, the Committee considered the following issues:

Department of Corrections – Review of Requested Transfer of Appropriations – The Committee gave a favorable review to a transfer of \$3 million from the Private Prison Per Diem Special Line Item to the All Other Operating Expenditures Special Line Item for increased health care costs. The department had sought a \$16 million transfer.

Department of Corrections – Report on Public Private Bed Comparison – The Committee received a report on the methodology that the Department of Corrections (ADC) uses for its statutorily-required public-private bed cost comparisons. ADC contracted with Maximus to review its methodology.

- Maximus observed that the current ADC methodology "does not enable the accurate comparison of ADC operated prison costs to private prison costs." Maximus made recommendations for adjustments to make the comparison more accurate.
- Based on some of these recommendations, ADC produced a brief preliminary public-private comparison and found that

the average daily per capita private bed cost was \$5.59, or 12.8%, more expensive than public beds.

- While Maximus reviewed the ADC comparison and reported that it “reasonably presents” the difference in costs of public and private beds, it noted that additional adjustments were still necessary. Based on a “ cursory review,” Maximus estimated that these further changes would increase the public bed daily cost by less than \$2.
- Maximus also recommended that the public cost be adjusted for capital construction expenses, which is already reflected in the private vendor costs. While the model makes some adjustment for asset depreciation, this does not fully capture new construction costs. Making this capital adjustment will reduce or may eliminate the existing public-private differential.
- Maximus also suggested that ADC release a detailed methodology describing the process used to calculate costs of public and private beds.

The report was for information only and no action was taken by the Committee.

SUMMARY OF RECENT AGENCY REPORTS

AHCCCS – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, AHCCCS has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year.

Based on a review of historical encounter cost and utilization trend data, capitation rates are estimated to grow approximately 6%-7% for the Acute Care Program and 6.5%-7.5% in the ALTCS Program beginning October 1, 2006. The FY 2007 JLBC Baseline assumed capitation rate growth of 6.0% for the Acute Care Program and 7.0% in the ALTCS Program.

The growth rates are based on the assumption that the programs will not change prior to the October 1, 2006 date when the new contract begins. Any programmatic changes or expansions most likely would have an impact on the capitation rate growth.

Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-285B, the Arizona Department of Corrections (ADC) is required to submit a quarterly report that details the cost reductions to the department from an inmate early release Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. Statute requires a savings of at least \$17 per day per inmate by releasing eligible inmates 90 days early from confinement and placing them in the Transition Program. The cost savings are to be deposited from the department’s operating budget into the Transition Program Drug Treatment Fund and used to fund the program. Pursuant to A.R.S. § 31-286, the fund is subject to Legislative appropriation. ADC awarded a service contract in March 2004. From October 1 through December 31, 2005, the department reports

that 109 inmates, or 86% of program participants, successfully completed the Transition Program and their term of community supervision. As a result, there were 7,696 bed days saved and \$130,832 in savings, based on savings of \$17 per day for each bed during this time period. Since program inception, a total of 378 inmates, or 48% of program participants, successfully completed the Transition Release Program and their term of community supervision with savings of 48,387 bed days and \$822,579.

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report. The FY 2005 report shows that the average number of children served increased to 43,135, or 13.9% above FY 2004; the families served increased by 15.4%. Across categories, the number of children served in the Low Income Working category increased 20.2% and the number of children receiving transitional child care increased by 8.3% while the number of TANF-related children decreased by (6.2)%.

The amount spent on child care subsidies increased to \$156,927,015, or 14.0% above FY 2004. The average monthly subsidy paid per child remained stable, increasing only \$0.44 to \$303.17. This is because most providers have rates near or at the maximum DES reimbursement. The total amount of co-payments increased 16.0% from FY 2004 to \$13,146,749.

The high percent increase in the number of children served and amount spent on subsidies is due in part to the elimination of a waiting list in FY 2005. Sufficient resources were available to eliminate the waiting list in June 2004. DES reestablished the waiting list in September 2004 due to projected increases in caseloads; however, those increases did not materialize and the waitlist was eliminated in February 2005. No waitlist is expected in FY 2006.

Department of Economic Security – Report on Arizona Works Pilot Program – Pursuant to A.R.S. § 46-342, DES has provided reports submitted by MAXIMUS, the program contractor for the Arizona Works program, along with comparable DES data, for October and November 2005. This job placement pilot serves clients in District I-E, which generally covers the eastern part of Maricopa County.

In November 2005, MAXIMUS placed a total of 115 Arizona Works clients in full-time paid employment in District I-E, a decrease of (3)% from the November 2004 figure of 118. (Over the same time period, the total number of District I-E Arizona Works clients placed by MAXIMUS in all new employment placements, including unpaid work experience and community service positions, decreased (12)%.) In November 2005, the number of DES JOBS clients placed in full-time paid employment in the rest of Maricopa County increased by 4% from the November 2004 figure, to 291 from 280 clients. (Over the same time period, total DES JOBS clients placed in all new employment placements in the rest of Maricopa County, including unpaid work experience and

community service positions, increased 8%.) As we have noted previously, because of potential differences in the demographic and economic makeup of both regions, one cannot necessarily draw conclusions about the relative effectiveness of both programs from this data.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for formula-funded and other major programs for FY 2006. In that report, ADE estimates that it will experience a \$(30.9) million shortfall for FY 2006.

ADE's current \$(30.9) million shortfall estimate is \$(7.2) million higher than its \$(23.7) million estimate from February 2006. The difference is primarily due to a \$(3.8) million increase for revised school district Average Daily Membership (ADM) counts from FY 2005 (which affect Basic State Aid costs in FY 2006), and a \$(3.7) million increase for revised charter school ADM counts for the current year.

Cost projections for the current year, however, will continue to change through at least May 15, which is the deadline for school districts to revise their budgets in order to qualify for funding for current year ADM growth.

Department of Health Services (DHS) – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, DHS has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year. Based on a review of historical encounter cost and utilization trend data, DHS estimates capitation rates growth for the following categories:

Children's Behavioral Health (CBH)	5.2%-10.2%
Seriously Mentally Ill (SMI)	0.0%-2.2%
General Mental Health/ Substance Abuse (GMH/SA)	14.3%-20.9%
Children's Rehab. Services (CRS)	7.0%-12%

The FY 2007 JLBC Baseline assumed capitation rate growth of 7.0% for the CBH, SMI and GMH/SA Programs and 6.0% for the CRS Program.

JLBC Staff – FY 2005 Reports on Credit Card Transactions – A.R.S. § 35-142, as amended by Laws 2005, Chapter 299, requires agencies that accept credit cards to annually report the number and dollar amount of those transactions, compared to the number and dollar amount of all transactions. Statute also requires information on the total dollar amounts of any discount, processing, or convenience fees paid. Lastly, each agency must issue a cost benefit report when its percentage of electronic transactions exceeds 30%.

Of the 125 organizations of the state, 15 are exempt from this requirement, including the state universities, the Legislature,

and the Office of the Governor. Of the remaining 110 organizations, 21 accepted payment cards in FY 2005.

Transaction volumes vary widely among the various departments. The Arizona Department of Transportation (ADOT) processed nearly 1.5 million credit transactions during FY 2005, while all 20 other agencies combined processed 0.2 million transactions over the year. These transactions represented gross revenues of \$251 million, of which ADOT generated \$238 million. For these transactions, the state paid fees of \$4.2 million during FY 2005, including \$3.9 million from ADOT. Transaction fees ranged between 0.6% and 4.1%, with an average at 1.7% of total transaction amounts.

State Land Department – Quarterly Report on State Trust Land Activities – The FY 2006 General Appropriation Act (GAA) provided the Land Department with \$3.1 million in additional monies for the planning and disposition of state trust lands. The GAA also required the department to submit quarterly reports to the JLBC regarding state trust land activities. During the second quarter of FY 2006, the Land Department began planning and engineering studies on 250,400 acres, leased 320 acres of state trust land for right of way use valued at \$2.4 million, and sold 293 acres valued at \$52.4 million. Fiscal year-to-date, the department sold 1,217 acres of state trust land valued at \$340.3 million.

Also, through the second quarter of FY 2006, the Land Department has filled all of the 12 new FTE Positions appropriated in the FY 2006 budget.

Arizona State Retirement System – Semi-Annual Report on the ASRS Information Technology Plan – Pursuant to a footnote in the General Appropriation Act, the Arizona State Retirement System (ASRS) is submitting its semi-annual report on the ASRS Information Technology (IT) project. ASRS received a FY 2006 appropriation of \$6,378,700 from the State Retirement System Administration Account to continue implementing the ASRS IT Plan. Through December 31, 2005, ASRS has spent \$2,515,400 of this appropriation. ASRS also received appropriations from FY 2002 to FY 2005 totaling \$36,152,500, and through December 31, 2005, ASRS has spent a total of \$26,880,700. Therefore, as of December 31, 2005, ASRS has \$15,650,500 in unspent appropriations from FY 2002 through FY 2006 for the ASRS IT Plan.

In FY 2005, there were some concerns as to the progress of the IT plan. These concerns caused the Government Information Technology Agency to change the project status from "green," indicating the project is expected to be completed as planned, to "red," indicating a serious risk to project phase completion by the planned date. The status was subsequently upgraded to "yellow." The Joint Legislative Budget Committee asked ASRS to provide a quarterly report on progress in returning to "green" status. ASRS reports that it has implemented all the recommendations from the independent assessment requested by the Information

Technology Advisory Committee (ITAC), including resumption of an Independent Advisory Consultant (IAC) and improved internal project tracking. A continuing concern is the Document Imaging project, where ASRS and the contractor are negotiating to resolve contractual claims raised by the contractor. This is likely to affect the schedule for document conversion. Overall, the IAC reports that the ASRS IT Plan remains on budget and on schedule for completion by December 31, 2007.

Department of Revenue (DOR) – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR's monthly status report shows expenditures of \$15,900 for Ladewig administrative costs in February 2006. On January 9, 2006, DOR revised their cost estimate from \$99.2 million to \$92.6 million in FY 2007 for the third and final year of payments required by the court settlement. On March 14, 2006, DOR further revised their cost estimate from \$92.6 million to \$94.8 million in FY 2007 for the third and final year of payments required by the court settlement. The \$2.2 million increase is for taxpayer payments, due to a higher interest rate.

Supreme Court – Report on Arizona Lengthy Trial Fund – Pursuant to A.R.S. § 21-222(E), the Supreme Court is required to report annually on the amount of monies collected and expended as well as the number of jurors receiving monies from the Lengthy Trial Fund (LTF). The fund is intended to reimburse jurors who would otherwise be receiving income resulting from employment. Eligibility of funding is limited to jurors serving on trials lasting in excess of 10 days.

Effective January 1, 2004, the Administrative Office of the Courts (AOC) established a \$15 filing fee for civil complaints, answers and requests to intervene. In FY 2005, revenues totaled \$725,500. Reimbursements to courts for trials actually conducted in FY 2005, of which a portion will actually be paid in FY 2006, amounted to \$168,900. In total, 645 jurors served on LTF-eligible trials and 217 (or 34%) of the eligible jurors sought payment.